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Investigation and Analysis of McDonald's Market Development

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Abstract: As a large restaurant chain, McDonald's is affected by different external and internal factors, which makes investors begin to question its sustainable operation ability. This study takes McDonald's as an example to explore the development issues of the catering industry through its business situation. This article studies the sustainability of McDonald's stock price in the future and evaluates its continued investment potential. Therefore, based on the financial data of McDonald's and its competitors during the period from 2020 to 2023, the expected value is estimated by combining quantitative research methods and relative value evaluation methods. The results of the study show that McDonald's financial performance in the past few years has been good, including good capital structure, short-term debt repayment ability and profitability. Investors can make a long-term investment in McDonald's stock based on a sound financial position and good market expectations. This study has important practical significance for the healthy development of catering.

Keywords: McDonald's, financial position, estimated Market value.

1. Introduction

1.1. Research Background and Significance

The restaurant industry in the United States has undergone major changes, with the development of society, it has been significantly innovated in culinary trends and technological advances, raw materials and services. The early catering service was mainly to meet the needs of family gatherings. At the beginning of the 20th century, the restaurant industry was influenced globally, incorporating a variety of gastronomic and dining trends. Consumers demand convenience, efficiency and convenience. In modern times, consumers have begun to pay attention to sustainability and healthy food choices [1]. McDonald's is one of the representatives of the American catering industry. It has a long history of development, and its business has also adjusted to the changing needs of social consumers.

McDonald's has its roots in the first drive-thru restaurant founded by Richard and Maurice McDonald in 1940. Ray Kroc bought the franchise in 1961, and continued to expand and grow the company, making McDonald's worldwide. McDonald's mainly adopts the franchise mode to manage its global stores [2]. The menu and operation of the standard language allow it to emphasize efficiency, speed, and achieve global standardization. McDonald's has more than 40,000 stores in more than 100 countries and employs more than 150 million people worldwide.

McDonald's belongs to the large multinational restaurant chain industry and mainly provides french fries, hamburger, soft drink. Because of its unmatched brand recognition and loyalty, the franchise model has allowed McDonald's to expand rapidly and benefit from the entrepreneurial spirit of individual franchisees.

However, McDonald's still has some challenges in the current market. Because the food it provides is a high-calorie, unhealthy menu, causing people's health concerns. Secondly, the rapid development of similar competitors of McDonald's also brings fierce competition in the industry, making McDonald's need to constantly innovate and improve to meet the needs of the market [3]. The rise of digital transformation has also made it necessary for McDonald's to invest more in technology, including mobile ordering, delivery services and digital kiosks, to adapt to changing consumer preferences.

Numerous external and internal challenges have led investors to question the company's continued growth potential. The growing number of competitors has also led investors to compare investments between McDonald's and its competitors. Based on the historical financial situation of McDonald's company and the comparable of its competitors in the industry, this paper analyzes the projected stock price of McDonald's in the future and evaluates the potential for sustained investment of McDonald's.

1.2. Literature Review

Ayrapetova used the financial statements of McDonald's during the period from 2008 to 2012 to compare with those of the company's competitor Yum! Brands compare the financial status of enterprises and evaluate the financial status advantages of competitors through their financial important indicators and important ratios [4]. In addition, the researchers combined the stock movements of both and formed the conclusion that for growth investors, Yum! Brands is a good investment, and McDonald's is a good choice for long-term investors. Ayrapetova provides guidelines for evaluating the operation of enterprises by using financial ratios and important financial indicators. This article will also compare the financial indicators of McDonald's and its competitors to form a conclusion on the differences in financial indicators between McDonald's and its competitors. However, the data used by Ayrapetova is for the period 2008-2012, which is relatively outdated, and the external environment has changed significantly for the current period, so its reference value is limited [4]. Second, in the evaluation of McDonald's and competitors in the market and give investment opinions based on the S&P 500 and DJ Indices market performance of both. In this study, the method of financial ratio analysis will be followed, and the relative valuation method will be adopted to evaluate McDonald's, determine its intrinsic stock price, and then judge the inevitability of McDonald's.

Chen analyzed the valuation of McDonald's company in the Chinese market based on multiple financial ratios to gain an in-depth understanding of McDonald's business situation and how to use McDonald's financial score to understand better investment [5]. Meanwhile, Chen analyzes McDonald's financial strategy, providing insights into how the company designs strategies to influence new markets and attract investors. In the whole process, Chen analyzed the competition situation of the industry through the five forces model, and the author adopted the latest financial data, including the financial data of 2022 and 2021, and considered the importance of financial strategy for investment evaluation, but it lacked quantitative estimation of McDonald's valuation and investment opinions [5]. This article will add the valuation of McDonald's EV/EBITDA and P /E ratio.

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1.3. Research Contents

This paper will adopt the method of quantitative analysis. Firstly, financial ratios and key financial indicators will be used to make preliminary judgments on McDonald's and its competitors, and the difference analysis on liquidity, solvency and operational capacity will be formed. Next, relative valuation is adopted for McDonald's. EV/EBITDA and P /E ratio methods are used to determine the estimated equity value and estimated intrinsic value of McDonald's. Then, it determines whether McDonald's is worth investing, and analyzes the reasons for the difference between the intrinsic value and the actual market value.

2. Financial Analysis and Valuation

McDonald's sales over the past four years provide a general framework for the company's overall financial position and operating results. As seen in Table1, in addition to a slight decline in sales revenue in 2022, sales revenue in other years showed a trend of growth. Sales declined in 2022, mainly due to the recovery impact of the pandemic. Although the overall sales of the enterprise declined, compared with the net interest rate of the enterprise, it can be seen that the decline of the net interest rate was less than the decline of the sales revenue. The profit margin increased from 58.12% in 2020 to 86.93% in 2023, which shows that the overall profitability of the enterprise is constantly improving [6] (See Table 1).

Table 1: Basic Financial Information of McDonald

Items	McDonald’s			
	2020	2021	2022	2023
Sales revenues ($M)	8,139.2	9787.40	8,748.40	9,741.60
Profit margin (%)	58.12%	77.09%	70.61%	86.93%
Total assets ($M)	52,626.80	53,854.30	50,435.60	56,146.80
Gross profit ($M)	1,158.00	1,740.10	1,367.50	1,517.50
Basic EPS (cents)	6.35	10.11	8.39	11.63

On the one hand, the growth of McDonald's profitability can be attributed to the expansion of the company's sales revenue and the specific impact of the business model. Another advantage that cannot be ignored is the effectiveness of enterprise cost control. McDonald's adopts more effective cost control methods and cost management measures to achieve continuous growth of net interest rate. With the growth of the company's sales, the company's asset size also began to expand, in addition to the 2022 annual asset size showed a small decline, the overall asset size increased to $56,146m in 2023.

However, compared with the change of the gross profit of enterprises, it can be seen that the gross profit of enterprises presents a downward trend to a certain extent. For example, the gross profit of the company in 2020 is $1740.1M, and the gross profit of the company in 2023 is $1517.5M. Although McDonald's sales revenue did not change significantly in the two years, gross profit showed a downward trend. This decline in gross profit is mainly attributable to the increase in material cost inflation caused by the pandemic.

In the sales revenue forecast of McDonald's, the sales growth rate of the past four years is mainly used, and the average growth rate is determined as the basis for sales forecast. It is determined that McDonald's average sales revenue growth rate is 7% on average.

Profitability is a measure of a business's ability to earn profits [7]. The profitability indicators selected this time include ROA, ROE, etc. McDonald's ROA averaged 13% over the 2020-2023 period, with its best profitability performance coming in 2023 (see Table 2). ROE will average 127% over the 2020-2023 period. This shows that less investment by investors does create higher value for the company. The ROA and ROE of McDonald's are also compared with those of its competitors in the same industry. McDonald's ROE is significantly higher than any of its competitors, which means that McDonald's is more able to create higher value for the company's investors.

Table 2: Profitability Analysis-1

McDonald's	2020	2021	2022	2023	Ave.
ROE (Return on Equity)	60.45%	163.99%	102.9%	179.93%	1.27
ROA (Return on Asset)	8.99%	14.01%	12.25%	15.08%	0.13
Leverage	672.56%	1170.49%	840.12%	1192.91%	9.69

Compared to its competitors, McDonald's ROA can't match that of rival Yum! Brands level (23%), indicating that McDonald's is less than the best of its competitors in terms of the effectiveness of its assets under management.

Leverage is mainly an index that measures the ratio of debt and equity of an enterprise [8]. McDonald's leverage has shown an overall growth trend between 2020 and 2023, with an average leverage of 969%. This shows that McDonald's from the perspective of financing sources, the relative proportion of debt is increasing, while the proportion of equity shows a downward trend. As seen in Table 3, the Leverage of McDonald's is relatively high compared to the average value of 2.97 of its competitors, indicating to some extent that McDonald's faces higher debt risk than its competitors. However, the leverage index alone cannot simply explain the overall debt repayment risk, and it still needs to be analyzed together with other indicators.

Table 3: Profitability Analysis-2

Items	RBI	Yum!Brands	Starbucks Cor.	Nestle
Ave. ROE (Return on Equity)	0.31	-0.16	-0.45	0.28
Ave. ROA (Return on Asset)	0.06	0.23	0.11	0.10
Ave. Leverage	5.61	-0.73	-4.15	2.97

McDonald's is significantly more liquid than its competitors. McDonald's has an average liquidity ratio of 1.34, compared with 0.89 for its industry competitors (see Table 4). McDonald's has a quick ratio of 1.33, while its competitors have a quick ratio of 0.57 (see Table 5).

Table 4: Solvency Analysis-1

McDonald's	2020	2021	2022	2023	Ave.
Current ratio (CR)	1.01	1.78	1.43	1.16	1.34
Quick ratio (QR)	1.00	1.76	1.41	1.16	1.33

Table 5: Solvency Analysis-2

Items	RBI	Yum!Brands	Starbucks Cor.	Nestle
Ave. Current ratio (CR)	1.09	1.08	0.95	0.89
Ave. Quick ratio (CR)	1.03	1.08	0.74	0.57

McDonald's has the advantage of short-term debt repayment ability to enable it to cope with the repayment pressure of short-term debt in a timely manner.

Operating capacity measures how efficiently McDonald's and its competitors use their assets [9]. First, in terms of accounts receivable turnover ratio, McDonald's accounts receivable turnover ratio has no advantage among industry competitors, because the accounts receivable turnover ratio of 4.28 is lower than that of Starbucks and Nestle Group. This shows that McDonald's still has room to adjust the speed of accounts receivable recovery.

Compared with the turnover of accounts receivable, the turnover speed of inventory is more advantageous for enterprises. The turnover rate of McDonald's inventory is 144.76, and the average turnover days are 2.53 (see Table 6). The weekly inventory capture rate of competitors is 3.93, and the average inventory turnover days are 93.55 (see Table 7). This shows that McDonald's has more advantages in inventory turnover, and shows that the company's products are more popular, and the risk of inventory extrusion is less.

Table 6: Operating Capacity Analysis-1

McDonald's	2020	2021	2022	2023	Ave.
Accounts Receivable Turnover (ART)	3.86	5.23	4.14	3.92	4.28
Days Account Receivable Outstanding	94.64	69.83	88.24	93.22	86.48
Inventory Turnover (TT)	136.62	144.74	141.94	155.76	144.76
Days inventory Held	2.67	2.52	2.57	2.34	2.53
Total Assets Turnover (TAT)	0.15	0.18	0.17	0.17	0.17

Table 7: Operating Capacity Analysis-2

Items	RBI	Yum!Brands	Starbucks Cor.	Nestle
Ave.ART	4.16	3.26	28.84	8.15
Ave.Days Account Receivable Outstanding	88.33	112.68	12.71	44.84
Ave.IT	17.13	N/A	5.37	3.93
Ave.Days inventory Held	21.55	N/A	68.84	93.55
Ave.TAT	0.11	0.34	1.03	1.75

McDonald's has no advantage in total asset turnover. Obviously, its total asset turnover rate is 0.17, which is significantly lower than the asset turnover speed of most competitors, indicating that McDonald's still needs to improve its efficiency in overall asset use.

After focusing on McDonald's financial situation, the next step is to analyze the valuation situation of McDonald's. When analyzing the valuation situation of McDonald's, it is mainly carried out by the relative valuation method of EV/EBITDA and P /E ratio [10].

The average EV/EBITDA of comparable enterprises (17.65) and the average EV/EBITDA of the industry (22.83), it is obvious that the average EV/EBITDA of comparable enterprises is lower than the industry average, mainly because there are certain differences in the business models of enterprises in the industry, resulting in differences in the calculation of EV/EBITDA. The difference between the Price-earnings ratio of comparable enterprises (23.38) and the industry average (24.44) is small, Enterprises (23.38) and the industry average (24.44) is small, which means that the Price-earnings ratio of comparable enterprises can represent the average of the entire industry (see Table 8). In addition, it can be seen from the calculation results that the value of McDonald's is undervalued under both EV/EBITDA and P/E measurement of company value, which also reflects that McDonald's has better EBITDA and earnings than the industry average.

Table 8: McDonald's Valuation

Items	McDonald's	Yum! Brands	RBI	Starbucks Cor.	Nestle	Average (Except Starbucks Cor. and Nestlé SA)
EV/EBITDA	17.7	19.9	15.4	15.2	15.7	17.65
EBITDA(B)	13.81	2.57	2.43	7.12	18.16	
EV-EBITDA	244.44	51.14	37.42	108.22	285.11	
Share price for McDonald (EV/EBITDA)	337.27					
Actual share price for McDonald	273.51					
Price-earnings ratio	23.7	24.18	22.58	20.97	22.36	23.38
EPS	11.42	5.35	3.31	3.59	6.63	
EV-EPS	270.65	129.36	74.74	75.28	148.25	
Share price for McDonald (P/E ratio)	369.45					
Actual share price for McDonald	273.51					

For investors, McDonald's is a good investment object, from the perspective of quantitative analysis, the company has a good profitability, at the same time, the company has a strong short-term solvency, inventory turnover efficiency. From the perspective of future expected stock price, the company's expected stock price is higher than the current market stock price of the market, indicating that the company's future stock price is expected to continue to grow. From a qualitative point of view, McDonald's has high brand recognition, a strong franchise network, and mature supply chain management processes, and even invests heavily in marketing and product development to stay relevant and attract customers. These advantages over competitors have undoubtedly laid a good foundation for the future development of the company. As an investor, the future growth of potential investment objects is the focus of long-term potential investment. McDonald's has the basis for sustained and stable growth in the future and reduces the business risk of enterprises in terms of liquidity, solvency, profitability and asset use efficiency. Of course, the most important thing is that McDonald's can bring continuous investment appreciation to investors. McDonald’s has evolved from a small drive-in restaurant to a global fast-food behemoth. Its success is attributed to its efficient business model, strong brand recognition, and constant innovation. However, the company faces various challenges related to health concerns, competition, and sustainability, which it must address to maintain its position as a market leader.

3. Suggestion

Here are some strategies and suggestions to address McDonald's current health, competition, and sustainability challenges.

3.1. Health Concerns

Constantly update the menu, while updating the menu, introduce more plant-based and low-calorie and healthy vegetarian dishes, increase the choice of consumers, and attract more health-conscious consumers. Nutritional information on the back of the menu, along with calorie counts, helps consumers choose the right meal and make clear healthy choices. Work regularly with other health organizations to explore healthier eating habits and develop healthier menus [11].

Provide online and offline nutrition guidance resources and advocacy to help consumers establish the right dietary choices. Diversified selection of customized meals, while satisfying customers' taste choices, you can also choose healthier food. Offer small portion options to help customers who need to reduce their calorie intake.

3.2. Competition

Strengthen brand awareness and value. At present, McDonald's has a higher market visibility and higher market recognition. In the years ahead, McDonald's can emphasize its strengths in quality, affordability, and convenience, and provide the best possible service to loyal customers. McDonald's may employ targeted marketing campaigns, based on specific customer groups or based on specific customer preferences [12].

In the highly competitive market, the company needs to provide its competitiveness through innovation and differentiation. McDonald's could develop an initial time-limited seasonal menu that would allow it to differentiate itself from competitors. The differentiation of the catering industry, technology and service is also one of its ways of differentiation. Investing in digital ordering, mobile payment and delivery services to improve service convenience is also one of its innovative ways. McDonald's can also work with competitors, including other popular brands, to create unique products and attract new customers.

3.3. Sustainability

Environmental responsibility: continuous investment and use of environmentally friendly degradable packaging and consumables. Use energy efficient facilities in McDonald's interiors, including energy efficient lighting and other facilities. When it comes to material procurement, priority is given to sourcing from ethical and sustainable suppliers.

Social responsibility: pay attention to the career development and training of employees, as well as fair welfare and treatment, and improve the satisfaction of employees. McDonald's participates in local community initiatives and organizations that promote health, education and environmental protection.

4. Conclusion

According to the above analysis results, it can be seen that although McDonald's faces challenges in the aspects of environment, sustainability and competition, the company has a good financial performance in the past few years, including a good capital structure, short-term solvency and profitability. These good financial conditions form the effective expectations of potential investors for the enterprise. According to the relative valuation method, McDonald's market value is undervalued. Therefore, McDonald's is worth long-term investment in the long run.

Based on this favorable market expectation, potential investors can compare the expected market value of McDonald's with the current market value and reasonably place McDonald's value-added investment portfolio. In addition, investment analysts can also rely on the analysis results to form a comparative analysis of the investment value of McDonald's and its competitors to judge the future market development trend.

The limitation of this study is that the first selected time period spans the epidemic period, and the influence of external factors on its estimate is not completely excluded. Secondly, in the selection of valuation methods, only the relative valuation method is considered, instead of different valuation methods such as DCF for verification. The relative valuation method has a strong dependence on the relative indicators of competitors.

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